ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- *Overview.* Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.
- *Strategy.* Overall strategy and the strategy for our operating segments.
- *Critical Accounting Estimates.* Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- *Results of Operations.* Analysis of our financial results comparing 2008 to 2007 and comparing 2007 to 2006.
- *Liquidity and Capital Resources.* An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition including the credit quality of our investment portfolio and potential sources of liquidity.
- *Fair value.* Discussion of the methodologies used in the valuation of our financial instruments.
- *Contractual Obligations and Off-Balance-Sheet Arrangements.* Overview of contractual obligations and contingent liabilities and commitments outstanding as of December 27, 2008, including expected payment schedule, and explanation of off-balance-sheet arrangements.
- *Business Outlook.* Our expectations for selected financial items for the 2009 fiscal year.

The various sections of this MD&A contain a number of forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the "Business Outlook" section (see also "Risk Factors" in Part I, Item 1A of this Form 10-K). Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of February 18, 2009.

Overview

Our goal is to be the preeminent provider of semiconductor chips and platforms for the worldwide digital economy. Our primary component-level products include microprocessors, chipsets, and flash memory.

Net revenue, gross margin, operating income, and net income for 2008 and 2007 were as follows:

(In Millions)	2008	2007
Net revenue	$ 37,586	$ 38,334
Gross margin	$ 20,844	$ 19,904
Operating income	$ 8,954	$ 8,216
Net income	$ 5,292	$ 6,976

The slowing of the worldwide economy resulted in a weak fourth quarter. The pace of the revenue decline in the fourth quarter was dramatic and resulted from reduced demand and inventory contraction across the supply chain. The 19% sequential decline from the third quarter of 2008 to the fourth quarter of 2008 was only the second time in the last 20 years that our fourth-quarter revenue fell below our third-quarter revenue. It is unclear when a turnaround may occur, and there remains a high degree of uncertainty around demand, which may continue to decline. However, we believe that our competitive position, manufacturing process technologies, cash flow from operations, and balance sheet remain strong, and that we are well positioned to manage through this economic downturn.

We continue to invest in our leading-edge technologies and growth initiatives in order to strengthen our competitive position and enter new market segments. We have a strong belief that technology companies successfully emerge from recessions with tomorrow's products, not today's products. In 2008, we introduced the Intel Atom processor family, which is designed to enable new mobile Internet form factors at attractive system price points. Our product offerings continue to strengthen, with the launch of our new microarchitecture, code-named "Nehalem," in the fourth quarter of 2008. Additionally, we expect to begin manufacturing products using our next-generation 32nm process technology in the second half of 2009, which we believe will increase performance and energy efficiency, and lower product costs.

Our gross margin toward the end of the year was impacted by approximately $250 million of factory under-utilization charges as well as inventory write-offs on computing-related products, which were primarily demand-related. The under-utilization charges were a result of our decision to reduce factory loadings at the end of the fourth quarter in response to the drop-off in demand. As a result, factory under-utilization charges are expected to increase significantly in the first quarter, impacting our gross margin. We also expect our gross margin to be negatively impacted as our start-up costs associated with our 32nm process technology increase and as we transition 32nm design resources from research and development to manufacturing. Additionally, changes in demand levels and pricing of products could impact inventory write-offs, mix, and unit costs, creating additional variability in margin. Despite reducing our factory loadings, we increased our inventory in the fourth quarter of 2008 due to lower than expected demand and inventory reductions in the supply chain. We expect further reduction in the supply chain inventory levels in the first quarter of 2009 as our customers manage their business through the current economic uncertainty. Subsequent to the end of 2008, management approved plans to restructure some of our manufacturing and assembly and test operations, and align our manufacturing and assembly and test capacity to current market conditions. These actions, which are expected to take place beginning in 2009, include closing two assembly and test facilities in Malaysia, one facility in the Philippines, and one facility in China; stopping production at a 200mm wafer fabrication facility in Oregon; and ending production at our 200mm wafer fabrication facility in California.

We continue to focus on our commitment to efficiency and controlling spending. We have reduced our headcount by over 2,000 from the end of 2007 and nearly 20,000 from our highest levels during 2006. During 2008, we had additional divestitures of non-strategic businesses and divested our NOR flash memory business. Also, in a joint decision with Micron, we discontinued the supply of NAND flash memory from a 200mm facility within the IMFT manufacturing network, which resulted in restructuring charges of $215 million.

In the fourth quarter of 2008, we made a $1.0 billion investment in Clearwire LLC, adding to our pre-existing investments. However, we recorded an impairment of our investments in the new Clearwire Corporation and Clearwire LLC of $938 million, primarily due to the fair value being significantly lower than the cost basis of our investments.

From a financial condition perspective, we ended 2008 with an investment portfolio valued at $14.5 billion, consisting of cash and cash equivalents and marketable debt instruments included in trading assets and short- and long-term investments. In addition, we generated $10.9 billion in cash from operations in 2008. The credit quality of our investment portfolio remains high during this difficult credit environment, with other-than-temporary impairments on our available-for-sale investments in debt instruments limited to $44 million during 2008. In addition, we continue to be able to invest in high-quality investments. However, we have seen a reduction in the volume of available commercial paper from certain market segments. As a result, our investments in short-term government funds have increased, which will reduce our average investment return. Despite the tightening of the credit markets, we continue to be able to access funds through the credit markets, including through the issuance of commercial paper. With the exception of a limited amount of investments for which we have recognized other-than-temporary impairments, we have not seen significant liquidation delays, and for those that have matured we have received the full par value of our original debt investments. For additional details on our investment portfolio, see "Liquidity and Capital Resources."

During 2008, we repurchased $7.1 billion of stock through our stock repurchase program and paid $3.1 billion to stockholders as dividends. In the fourth quarter of 2008, we did not repurchase additional stock, as we felt that it was better to conserve cash, given the economic environment. In January 2009, our Board of Directors declared a dividend of $0.14 per common share for the first quarter of 2009.

Strategy

Our goal is to be the preeminent provider of semiconductor chips and platforms for the worldwide digital economy. As part of our overall strategy to compete in each relevant market segment, we use our core competencies in the design and manufacture of integrated circuits, as well as our financial resources, global presence, and brand recognition. We believe that we have the scale, capacity, and global reach to establish new technologies and respond to customers' needs quickly.

Some of our key focus areas are listed below:

- *Customer Orientation.* Our strategy focuses on developing our next generation of products based on the needs and expectations of our customers. In turn, our products help enable the design and development of new form factors and usage models for businesses and consumers. We offer platforms that incorporate various components designed and configured to work together to provide an optimized user computing solution compared to components that are used separately.
- *Architecture and Platforms.* We are developing integrated platform solutions by moving the memory controller and graphics functionality from the chipset to the microprocessor. This platform repartitioning is designed to provide improved performance due to higher integration, lower power consumption, and reduced platform size. In addition, we are focusing on improved energy-efficient performance for computing and communications systems and devices. Improved energy-efficient performance involves balancing improved performance with lower power consumption. We continue to develop multi-core microprocessors with an increasing number of cores, which enable improved multitasking and energy efficiency. We are also focusing on the development of a new highly scalable, many-core architecture aimed at parallel processing. This architecture will initially be used in developing discrete graphics processors designed for gaming and media creation. Over time, this architecture may be utilized in the development of products for scientific and professional workstations as well as high-performance computing applications.
- *Silicon and Manufacturing Technology Leadership.* Our strategy for developing microprocessors with improved performance is to synchronize the introduction of a new microarchitecture with improvements in silicon process technology. We plan to introduce a new microarchitecture approximately every two years and ramp the next generation of silicon process technology in the intervening years. This coordinated schedule allows us to develop and introduce new products based on a common microarchitecture quickly, without waiting for the next generation of silicon process technology. We refer to this as our "tick-tock" technology development cadence.
- *Strategic Investments.* We make equity investments in companies around the world that we believe will generate returns, further our strategic objectives, and support our key business initiatives. Our investments, including those made through our Intel Capital program, generally focus on investing in companies and initiatives to stimulate growth in the digital economy, create new business opportunities for Intel, and expand global markets for our products. Our current investments focus on the following areas: advancing flash memory products, enabling mobile wireless devices, advancing the digital home, enhancing the digital enterprise, advancing high-performance communications infrastructures, and developing the next generation of silicon process technologies. Our focus areas and investment activities tend to develop and change over time due to rapid advancements in technology and changes in the economic climate.
- *Business Environment and Software.* We believe that we are well positioned in the technology industry to help drive innovation, foster collaboration, and promote industry standards that will yield innovation and improved technologies for users. We plan to continue to cultivate new businesses and work to encourage the industry to offer products that take advantage of the latest market trends and usage models. We frequently participate in industry initiatives designed to discuss and agree upon technical specifications and other aspects of technologies that could be adopted as standards by standards-setting organizations. In addition, we work collaboratively with other companies to protect digital content and the consumer. Lastly, through our Software and Services Group (SSG), we help enable and advance the computing ecosystem by providing development tools and support to help software developers create software applications and operating systems that take advantage of our platforms.

We believe that the proliferation of the Internet, including user demand for premium content and rich media, drives the need for greater performance in PCs and servers. A growing number of older PCs are increasingly incapable of handling the tasks that users demand, such as streaming video, uploading photos, and online gaming. As these tasks become even more demanding and require more computing power, we believe that users will need and want to buy new PCs to perform everyday tasks on the Internet. We also believe that increased Internet traffic creates a need for greater server infrastructure, including server products optimized for energy-efficient performance.

The trend of mobile microprocessor unit growth outpacing the growth in desktop microprocessor units has continued, and shipments of our mobile microprocessors exceeded our desktop microprocessors for the first time in the second quarter of 2008. We believe that the demand for mobile microprocessors will result in the increased development of products with form factors and uses that require low-power microprocessors.

Our silicon and manufacturing technology leadership allows us to develop low-power microprocessors for new uses and form factors. We believe that these low-power microprocessors give us the ability to extend Intel architecture and drive growth in new market segments, including a growing number of products that require processors specifically designed for embedded solutions, MIDs, consumer electronics devices, nettops, and netbooks. We believe that the common elements for products in these new market segments are low power consumption and the ability to access the Internet. We also offer, and are continuing to develop, SoC products that integrate core processing functionality with specific components, such as graphics, audio, and video, onto a single chip to form a purpose-built solution. This integration reduces cost, power consumption, and size.

Strategy by Operating Segment

We completed a reorganization in the second quarter of 2008 that transferred the revenue and costs associated with a portion of the Digital Home Group's consumer PC components business to the Digital Enterprise Group. The Digital Home Group now focuses on the consumer electronics components business. The strategy by operating segment presented below is based on the new organizational structure.

The strategy for our ***Digital Enterprise Group*** (DEG) is to offer computing and communications products for businesses, service providers, and consumers. DEG products are incorporated into desktop and nettop computers, enterprise computer servers and workstations, and products that make up the infrastructure for the Internet. We also offer products for embedded designs, such as industrial equipment, point-of-sale systems, telecommunications, panel PCs, in-vehicle information/entertainment systems, and medical equipment. Our strategy for the desktop computing market segment is to offer products that provide increased manageability, security, and energy-efficient performance while at the same time lowering total cost of ownership for businesses. For consumers in the desktop computing market segment, we also focus on the design of components for high-end enthusiast PCs and mainstream PCs with rich audio and video capabilities. Our strategy for the nettop computing market segment is to offer products that enable affordable, Internet-focused devices with small form factors. Our strategy for the enterprise computing market segment is to offer products that provide energy-efficient performance and virtualization technology for server, workstation, and storage platforms. We are also increasing our focus on products designed for high-performance computing, data centers, and blade server systems. Our strategy for the embedded computing market segment is to drive Intel architecture as an embedded solution by delivering long life cycle support, architectural scalability, and platform integration.

The strategy for our ***Mobility Group*** is to offer notebook PC products designed to improve performance, battery life, and wireless connectivity, as well as to allow for the design of smaller, lighter, and thinner form factors. We are also increasing our focus on products designed for the business and consumer environments by offering technologies that provide increased manageability and security, and we continue to invest in the build-out of WiMAX. We also offer, and are continuing to develop, products that enable mobile devices to deliver digital content and the Internet to users in new ways, including products for MIDs and netbooks.

The strategy for our ***NAND Solutions Group*** is to offer advanced NAND flash memory products, focusing on system-level solutions for Intel architecture platforms such as solid-state drives. Additionally, we offer NAND products used in memory cards. In support of our strategy to provide advanced flash memory products, we continue to focus on the development of innovative products designed to address the needs of customers for reliable, non-volatile, low-cost, high-density memory.

The strategy for our ***Digital Home Group*** is to offer products and solutions, including SoC designs, for use in consumer electronics devices designed to access and share Internet, broadcast, optical media, and personal content through a variety of linked digital devices within the home. We are focusing on the design of components for consumer electronics devices, such as digital TVs, high-definition media players, and set-top boxes, which receive, decode, and convert incoming data signals.

The strategy for our ***Digital Health Group*** is to design and deliver technology-enabled products and explore global business opportunities in healthcare information technology and healthcare research, as well as personal healthcare. In support of this strategy, we are focusing on the design of technology solutions and platforms for the digital hospital and consumer/home health products.

The strategy for our ***Software and Services Group*** is to promote Intel architecture as the platform of choice for software and services. SSG works with the worldwide software and services ecosystem by providing software products, engaging with developers, and driving strategic software investments.

Critical Accounting Estimates

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments, which impact gains (losses) on equity method investments, net, or gains (losses) on other equity investments, net when we record impairments;
- the valuation of investments in debt instruments and the determination of other-than-temporary impairments, which impact our investment portfolio balance when we assess fair value, and interest and other, net when we record impairments of available-for-sale debt instruments;
- the assessment of recoverability of long-lived assets, which primarily impacts gross margin or operating expenses when we record asset impairments or accelerate their depreciation;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions), which impact our provision for taxes; and
- the valuation of inventory, which impacts gross margin.

Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies, such as those for revenue recognition, including the deferral of revenue on sales to distributors; however, these policies typically do not require us to make estimates or judgments that are difficult or subjective.

Non-Marketable Equity Investments

The carrying value of our non-marketable equity investment portfolio, excluding equity derivatives, totaled $4.1 billion as of December 27, 2008 ($3.4 billion as of December 29, 2007). The majority of the balance as of December 27, 2008 was concentrated in companies in the flash memory market segment and wireless connectivity market segment. Our flash memory market segment investments include our investment in IMFT of $1.7 billion ($2.2 billion as of December 29, 2007), our investment in IM Flash Singapore, LLP (IMFS) of $329 million ($146 million as of December 29, 2007), and our investment in Numonyx of $484 million. Our wireless connectivity market segment investments include our non-marketable investment in Clearwire LLC of $238 million (see "Note 5: Available-for-Sale Investments" in Part II, Item 8 of this Form 10-K for information on our additional marketable equity investment in the new Clearwire Corporation of $148 million). In addition, we regularly invest in non-marketable equity instruments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. For additional information, see "Note 6: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

Our non-marketable equity investments are recorded using adjusted historical cost basis or the equity method of accounting, depending on the facts and circumstances of each investment (see "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K). Our non-marketable equity investments are classified in other long-term assets on the consolidated balance sheets.

Non-marketable equity investments are inherently risky, and a number of the companies in which we invest are likely to fail. Their success is dependent on product development, market acceptance, operational efficiency, and other key business factors. Depending on their future prospects, the companies may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and our investments would likely become impaired. Additionally, the current financial markets are extremely volatile and there has been a tightening of the credit markets, which could negatively affect the prospects of the companies we invest in, their ability to raise additional capital, and the likelihood of our being able to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales. For further information about our investment portfolio risks, including those specific to our investments in the flash memory market segment and wireless connectivity market segment, see "Risk Factors" in Part I, Item 1A of this Form 10-K.

We review our investments quarterly for indicators of impairment; however, for non-marketable equity investments, the impairment analysis requires significant judgment to identify events or circumstances that would significantly harm the fair value of the investment. The indicators that we use to identify those events or circumstances primarily include:

- the investee's revenue and earnings trends relative to predefined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes;
- factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee's receipt of additional funding at a lower valuation.

Investments that we identify as having an indicator of impairment are subject to further analysis to determine if the fair value of the investment is below our carrying value. If the fair value of the investment is below our carrying value, we determine if the investment is other than temporarily impaired based on the severity and duration of the impairment. If the investment is considered to be other than temporarily impaired, we write down the investment to its fair value. Beginning in the first quarter of 2008, the assessment of fair value for non-marketable investments is based on the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157), as amended. With the exception of Clearwire LLC, we classified our impaired non-marketable investments as Level 3, as we use unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices and inherent lack of liquidity. We classified our investment in Clearwire LLC as Level 2, as the unobservable inputs to the valuation methodology were not significant to the fair value measurement. See "Note 3: Fair Value" in Part II, Item 8 of this Form 10-K.

Impairments of non-marketable equity investments were $1.2 billion in 2008. Over the past 12 quarters, including the fourth quarter of 2008, impairments of non-marketable equity investments have ranged from $10 million to $896 million per quarter.

The following is a discussion of the methods, estimates, and judgments that management uses in our analysis to determine if our non-marketable equity investments are other than temporarily impaired.

IMFT/IMFS

IMFT and IMFS are variable interest entities that are designed to manufacture and sell NAND products to Intel and Micron at manufacturing cost. Our NAND Solutions Group operating segment purchases 49% of these NAND products from IMFT and sells them to our customers. As a result, we generate cash flows from our investments in IMFT, IMFS, and our intangible assets related to the NAND product designs through our NAND Solutions Group business. Therefore, we determine the fair value of our investments in IMFT and IMFS using the income approach, based on a weighted average of multiple discounted cash flow scenarios of our NAND Solutions Group business.

The discounted cash flow scenarios require the use of unobservable inputs, including assumptions of projected revenues (including product volume, product mix, and average selling prices), expenses, capital spending, and other costs, as well as a discount rate. Estimates of projected revenues, expenses, capital spending, and other costs are developed by IMFT, IMFS, and Intel using historical data and available market data. Management also determines how multiple discounted cash flow scenarios are weighted in the fair value determination. Additionally, the development of several inputs used in our income model (such as discount rate and tax rate) requires the selection of comparable companies within the NAND flash memory market segment. The selection of comparable companies requires management judgment and is based on a number of factors, including NAND products and services lines within the flash memory market segment, comparable companies' sizes, growth rates, and other relevant factors. Based on our fair value determination, the fair value of our investment in IMFT and IMFS approximated carrying value as of December 27, 2008.

Changes in management estimates to the unobservable inputs would change the valuation of the investment. The estimates for the projected revenue and discount rate are the assumptions that most significantly affect the fair value determination. For example, the impact of a 5% decline in projected revenue in each of our cash flow scenarios could result in a decline in the fair value of our investment of up to approximately $300 million. The impact of a one percentage point increase in the discount rate would result in a decline in the fair value of our investment of approximately $225 million.

The fair value determined by the income approach is compared to the carrying value of our investments in IMFT and IMFS and our intangible asset related to the NAND product designs that we purchased from Micron as part of the formation of IMFT. We did not have an other-than-temporary impairment on our investments in IMFT and IMFS in 2008, 2007, or 2006.

Numonyx

We determine the fair value of our investment in Numonyx using a combination of the income approach and the market approach. The income approach includes the use of a weighted average of multiple discounted cash flow scenarios of Numonyx, which requires the use of unobservable inputs, including assumptions of projected revenues, expenses, capital spending, and other costs, as well as a discount rate calculated based on the risk profile of the flash memory market segment. Estimates of projected revenues, expenses, capital spending, and other costs are developed by Numonyx and Intel. The market approach includes using financial metrics and ratios of comparable public companies, such as projected revenues, expenses, and other costs. The selection of comparable companies used in the market approach requires management judgment and is based on a number of factors, including NOR products and services lines within the flash memory market segment, comparable companies' sizes, growth rates, and other relevant factors.

Changes in management estimates to the unobservable inputs in our valuation models would change the valuation of the investment. The estimated projected revenue is the assumption that most significantly affects the fair value determination. For example, the impact of a 5% decline in projected revenue to each of our models and cash flow scenarios could result in a decline in the fair value of our investment of up to approximately $140 million. Management judgment is involved in determining how the income approach and the market approach are weighted in the fair value determination. Our fair value determination was more heavily weighted toward the market approach due to the comparability of similar companies in the market and the availability of market-based data. Increasing the relative weighting of the income approach would have resulted in a decline in the fair value of our investment by approximately $30 million.

We recorded a $250 million impairment charge on our investment in Numonyx during the third quarter of 2008 to write down our investment to its fair value. Estimates for revenue, earnings, and future cash flows were revised lower due to a general decline in the NOR flash memory market segment.

Clearwire LLC

We determine the fair value of our investment in Clearwire LLC primarily using the quoted prices of its parent company, the new Clearwire Corporation. The effects of adjusting the quoted price for premiums that we believe market participants would consider for Clearwire LLC, such as tax benefits and voting rights associated with our investment, were mostly offset by the effects of discounts to the fair value, such as those due to transfer restrictions, lack of liquidity, and differences in dividend rights that are included in the value of the new Clearwire Corporation stock. During the fourth quarter of 2008, we recorded a $762 million impairment charge on our investment in Clearwire LLC to write down our investment to its fair value, primarily due to the fair value being significantly lower than the cost basis of our investment.

In addition, during the fourth quarter of 2008, we recorded a $176 million impairment charge on our available-for-sale marketable investment in the new Clearwire Corporation due to the fair value being significantly lower than the cost basis of our investment.

Other Non-Marketable Equity Investments

We determine the fair value of our other non-marketable equity investments using the market approach and/or the income approach. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, products and services lines, development stage, and other relevant factors. The income approach includes the use of a discounted cash flow model, which requires the following significant estimates for the investee: revenue, based on assumed market segment size and assumed market segment share; estimated costs; and appropriate discount rates based on the risk profile of comparable companies. Estimates of market segment size, market segment share, and costs are developed by the investee and/or Intel using historical data and available market data. The valuation of our other non-marketable investments also takes into account movements of the equity and venture capital markets, recent financing activities by the investees, changes in the interest rate environment, the investee's capital structure, liquidation preferences for the investee's capital, and other economic variables. The valuation of some of our investments in the wireless connectivity market segment was based on the income approach to determine the value of the investee's spectrum licenses, transmission towers, and customer lists.

We recorded a total of $200 million of impairment charges in 2008 on our other non-marketable equity investments. Over the past 12 quarters, including the fourth quarter of 2008, impairments of our other non-marketable equity investments have ranged from $10 million to $134 million per quarter.

Investments in Debt Instruments

Fair Value

In the current market environment, the assessment of the fair value of debt instruments can be difficult and subjective. The volume of trading activity of certain debt instruments has declined, and the rapid changes occurring in today's financial markets can lead to changes in the fair value of financial instruments in relatively short periods of time. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value (see "Note 3: Fair Value" in Part II, Item 8 of this Form 10-K). Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

Level 1 instruments represent quoted prices in active markets. Therefore, determining fair value for Level 1 instruments does not require significant management judgment, and the estimation is not difficult.

Level 2 instruments include observable inputs other than Level 1 prices, such as quoted prices for identical instruments in markets with insufficient volume or infrequent transactions (less active markets), issuer credit ratings, non-binding market consensus prices that can be corroborated with observable market data, model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities, or quoted prices for similar assets or liabilities. These Level 2 instruments require more management judgment and subjectivity compared to Level 1 instruments, including:

- Determining which instruments are most similar to the instrument being priced requires management to identify a sample of similar securities based on the coupon rates, maturity, issuer, credit rating, and instrument type, and subjectively select an individual security or multiple securities that are deemed most similar to the security being priced.
- Determining whether a market is considered active requires management judgment. Our assessment of an active market for our marketable debt instruments generally takes into consideration activity during each week of the one-month period prior to the valuation date of each individual instrument, including the number of days each individual instrument trades and the average weekly trading volume in relation to the total outstanding amount of the issued instrument.
- Determining which model-derived valuations to use in determining fair value requires management judgment. When observable market prices for identical securities or similar securities are not available, we price our marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data or pricing models, such as discounted cash flow models, with all significant inputs derived from or corroborated with observable market data.

Level 3 instruments include unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity. Most of our marketable debt instruments classified as Level 3 are valued using a non-binding market consensus price or a non-binding broker quote, both of which we corroborate with unobservable data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical and/or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs, and to a lesser degree non-observable market inputs. Adjustments to the fair value of instruments priced using non-binding market consensus prices and non-binding broker quotes, and classified as Level 3, were not significant in 2008.

Other-Than-Temporary Impairment

After determining the fair value of our available-for-sale debt instruments, gains or losses on these investments are recorded to other comprehensive income, until either the investment is sold or we determine that the decline in value is other-than-temporary. Determining whether the decline in fair value is other-than-temporary requires management judgment based on the specific facts and circumstances of each investment. For investments in debt instruments, these judgments primarily consider: the financial condition and liquidity of the issuer, the issuer's credit rating, and any specific events that may cause us to believe that the debt instrument will not mature and be paid in full; and our ability and intent to hold the investment to maturity. Given the current market conditions, these judgments could prove to be wrong, and companies with relatively high credit ratings and solid financial conditions may not be able to fulfill their obligations. In addition, if management decides not to hold an investment until maturity, it may result in the recognition of an other-than-temporary impairment.

As of December 27, 2008, our investments included $11.3 billion of available-for-sale debt instruments. During 2008, we recognized $44 million in impairment charges on our available-for-sale debt instruments. As of December 27, 2008, our cumulative unrealized losses related to debt instruments classified as available-for-sale were approximately $215 million (approximately $55 million as of December 29, 2007). As of December 27, 2008, this amount included approximately $170 million of unrecognized losses that could be recognized in the future if our other-than-temporary assessment changes.

Long-Lived Assets

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping's carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by comparing the difference between the asset grouping's carrying value and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful lives. Over the past 12 quarters, including the fourth quarter of 2008, impairments and accelerated depreciation of long-lived assets ranged from $1 million to $320 million per quarter. For further discussion on these asset impairment charges, see "Note 15: Restructuring and Asset Impairment Charges" in Part II, Item 8 of this Form 10-K.

Long-lived assets such as goodwill; intangible assets; and property, plant and equipment are considered non-financial assets, and are measured at fair value only when indicators of impairment exist. The accounting and disclosure provisions of SFAS No. 157 are effective for these assets beginning in the first quarter of 2009. For further discussion, see "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K.

Income Taxes

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a majority of the deferred tax assets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely. In 2008, we recorded gross additional valuation allowances of approximately $270 million, primarily related to our anticipated inability to take the full tax benefit of impairment charges. Changes in management's plans with respect to holding or disposing of investments could affect our future provision for taxes.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109," and related guidance, we recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, settled and effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work in process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory. As of December 27, 2008, we had total work-in-process inventory of $1,577 million and total finished goods inventory of $1,559 million. The demand forecast is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, the stage of the product life cycle of our products, consumer confidence, and customer acceptance of our products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, or if we fail to forecast the demand accurately, we could be required to write off inventory, which would negatively impact our gross margin.

Recent Accounting Pronouncements and Accounting Changes

For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K.

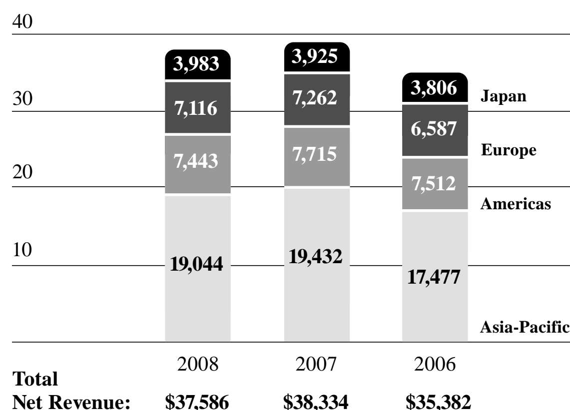
Results of Operations

The following table sets forth certain consolidated statements of income data as a percentage of net revenue for the periods indicated:

(Dollars in Millions, Except Per Share Amounts)	2008		2007		2006	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Net revenue	**$37,586**	**100.0%**	**$38,334**	**100.0%**	**$35,382**	**100.0%**
Cost of sales	16,742	44.5%	18,430	48.1%	17,164	48.5%
Gross margin	**20,844**	**55.5%**	**19,904**	**51.9%**	**18,218**	**51.5%**
Research and development	5,722	15.2%	5,755	15.0%	5,873	16.6%
Marketing, general and administrative	5,458	14.6%	5,417	14.2%	6,138	17.3%
Restructuring and asset impairment charges	710	1.9%	516	1.3%	555	1.6%
Operating income	**8,954**	**23.8%**	**8,216**	**21.4%**	**5,652**	**16.0%**
Gains (losses) on equity method investments, net	(1,380)	(3.7)%	3	—%	2	—%
Gains (losses) on other equity investments, net	(376)	(1.0)%	154	0.4%	212	0.6%
Interest and other, net	488	1.3%	793	2.1%	1,202	3.4%
Income before taxes	**7,686**	**20.4%**	**9,166**	**23.9%**	**7,068**	**20.0%**
Provision for taxes	2,394	6.3%	2,190	5.7%	2,024	5.7%
Net income	**$ 5,292**	**14.1%**	**$ 6,976**	**18.2%**	**$ 5,044**	**14.3%**
Diluted earnings per share	**$ 0.92**		**$ 1.18**		**$ 0.86**	

The following graphs set forth revenue information of geographic regions for the periods indicated:

Geographic Breakdown of Revenue



Our net revenue was $37.6 billion in 2008, a decrease of 2% compared to 2007. Higher revenue from the sale of microprocessors and chipsets was more than offset by the impacts of divestitures and lower revenue from the sale of motherboards. Revenue from the sale of NOR flash memory and cellular baseband products declined approximately $1.7 billion, primarily as a result of divestiture of these businesses. Revenue in the Americas region decreased 4% in 2008 compared to 2007. Revenue in the Asia-Pacific, Europe, and Japan regions remained approximately flat in 2008 compared to 2007.

Although net revenue for 2008 declined only slightly from 2007, net revenue for the fourth quarter of 2008 declined 19% from the third quarter as customers reduced inventory levels to keep pace with the dramatic decline in end-user demand that occurred over the course of the quarter. It is unclear when a turnaround may occur, and there remains a high degree of uncertainty around demand, which may continue to decline.

Our overall gross margin dollars for 2008 were $20.8 billion, an increase of $940 million, or 5%, compared to 2007. Our overall gross margin percentage increased to 55.5% in 2008 from 51.9% in 2007. The increase in gross margin percentage was primarily attributable to the gross margin percentage increase in the Digital Enterprise Group operating segment. In addition, our gross margin percentage increased due to the divestiture of our NOR flash memory business. We derived most of our overall gross margin dollars and operating profit in 2008 and 2007 from the sale of microprocessors in the Digital Enterprise Group and Mobility Group operating segments. See "Business Outlook" for a discussion of gross margin expectations.

Our net revenue was $38.3 billion in 2007, an increase of 8% compared to 2006. Higher microprocessor unit sales were partially offset by lower microprocessor average selling prices. Higher mobile chipset unit sales also contributed to the increase in net revenue. Lower NOR flash memory revenue in 2007 compared to 2006 was mostly offset by the ramp of our NAND flash memory business. The decrease in NOR flash memory revenue was due to a significant decline in average selling prices. Lower royalty revenue was offset by higher unit sales. Revenue in the Asia-Pacific region increased 11% and revenue in the Europe region increased 10% in 2007 compared to 2006, and revenue in the Americas region and Japan increased 3% in 2007 compared to 2006.

Our overall gross margin dollars for 2007 were $19.9 billion, an increase of $1.7 billion, or 9%, compared to 2006. Our overall gross margin percentage was relatively flat at 51.9% in 2007 compared to 51.5% in 2006. The gross margin percentage increase in the Digital Enterprise Group operating segment was mostly offset by a decrease in the gross margin percentage in the Mobility Group operating segment and costs associated with the ramp of our NAND flash memory business. We derived most of our overall gross margin dollars and operating profit in 2007 and 2006 from the sale of microprocessors in the Digital Enterprise Group and Mobility Group operating segments.

Digital Enterprise Group

The revenue and operating income for the Digital Enterprise Group (DEG) for the three years ended December 27, 2008 were as follows:

(In Millions)	2008	2007	2006
Microprocessor revenue	$ 16,078	$ 15,945	$ 15,248
Chipset, motherboard, and other revenue	4,554	5,359	5,437
Net revenue	**$ 20,632**	**$ 21,304**	**$ 20,685**
Operating income	**$ 6,462**	**$ 5,295**	**$ 3,299**

Net revenue for the DEG operating segment decreased by $672 million, or 3%, in 2008 compared to 2007. Microprocessors within DEG include those designed for the desktop and enterprise computing market segments as well as embedded microprocessors. The increase in microprocessor revenue was due to higher enterprise microprocessor average selling prices and higher embedded microprocessor unit sales, partially offset by lower desktop microprocessor unit sales. The decrease in chipset, motherboard, and other revenue was primarily due to lower motherboard unit sales and lower revenue from the sale of communications products. In addition, lower chipset average selling prices were partially offset by higher chipset unit sales.

Operating income increased by $1.2 billion, or 22%, in 2008 compared to 2007. The increase in operating income was primarily due to lower desktop microprocessor and chipset unit costs. Lower start-up costs of approximately $350 million and lower operating expenses were partially offset by sales in 2007 of desktop microprocessors that had previously been written off and higher write-offs of desktop microprocessor inventory in 2008.

For 2007, net revenue for the DEG operating segment increased by $619 million, or 3%, compared to 2006. The increase in microprocessor revenue was due to higher microprocessor unit sales and higher enterprise average selling prices. These increases were partially offset by lower desktop average selling prices in a competitive pricing environment. The decrease in chipset, motherboard, and other revenue was due to lower motherboard unit sales as well as a decrease in communications infrastructure revenue, which was primarily due to divestitures of certain communications infrastructure businesses that were completed in 2006 and 2007. Partially offsetting these decreases was higher chipset revenue.

Operating income increased by $2.0 billion, or 61%, in 2007 compared to 2006. The increase in operating income was primarily due to lower desktop microprocessor unit costs and lower operating expenses, and to a lesser extent, sales of desktop microprocessor inventory that had been previously written off. Partially offsetting these increases were higher chipset unit costs and approximately $500 million of higher start-up costs, primarily related to our 45nm process technology. In 2007, we began including share-based compensation in the computation of operating income (loss) for each operating segment and adjusted the 2006 operating segment results to reflect this change.

Mobility Group

The revenue and operating income for the Mobility Group (MG) for the three years ended December 27, 2008 were as follows:

(In Millions)	2008	2007	2006
Microprocessor revenue	$ 11,439	$ 10,660	$ 9,212
Chipset and other revenue	4,209	4,021	3,097
Net revenue	**$ 15,648**	**$ 14,681**	**$ 12,309**
Operating income	**$ 5,199**	**$ 5,611**	**$ 4,602**

Net revenue for the MG operating segment increased by $967 million, or 7%, in 2008 compared to 2007. The increase in microprocessor revenue was due to significantly higher microprocessor unit sales, which were partially offset by significantly lower microprocessor average selling prices. A portion of the increase in microprocessor unit sales, as well as a portion of the decrease in average selling prices, was due to the ramp of Intel Atom processors. The increase in chipset and other revenue was primarily due to significantly higher chipset unit sales, which were partially offset by lower revenue from the sale of cellular baseband products. We are winding down the sales from the manufacturing agreement entered into as part of the divestiture of the cellular baseband business.

Operating income decreased by $412 million, or 7%, in 2008 compared to 2007. The decrease in operating income was primarily due to higher operating expenses, which were partially offset by lower microprocessor unit costs.

For 2007, net revenue for the MG operating segment increased by $2.4 billion, or 19%, compared to 2006. The increase in microprocessor revenue was due to a significant increase in unit sales, partially offset by significantly lower average selling prices. The increase in chipset and other revenue was due to higher unit sales of chipsets and, to a lesser extent, higher revenue from sales of cellular baseband products. In the fourth quarter of 2006, we sold certain assets of the business line that included application and cellular baseband processors used in handheld devices; however, in 2007 we continued to manufacture and sell those products as part of a manufacturing and transition services agreement.

Operating income increased by $1.0 billion, or 22%, in 2007 compared to 2006. The increase in operating income was primarily due to higher revenue. Lower microprocessor unit costs were more than offset by approximately $330 million of higher start-up costs, primarily related to our 45nm process technology. Lower unit costs on wireless connectivity and cellular baseband products were offset by higher chipset unit costs. Operating expenses were higher in 2007 compared to 2006; however, operating expenses as a percentage of revenue decreased in 2007 compared to 2006.

Operating Expenses

Operating expenses for the three years ended December 27, 2008 were as follows:

(In Millions)	2008	2007	2006
Research and development	$ 5,722	$ 5,755	$ 5,873
Marketing, general and administrative	$ 5,458	$ 5,417	$ 6,138
Restructuring and asset impairment charges	$ 710	$ 516	$ 555

Research and Development. R&D spending was flat in 2008 compared to 2007 and decreased $118 million, or 2%, in 2007 compared to 2006. In 2008 compared to 2007, we had lower product development expenses resulting from our divested businesses and slightly lower profit-dependent compensation. These decreases were offset by higher process development costs as we transition from manufacturing start-up costs related to our 45nm process technology to research and development of our next-generation 32nm process technology. The decrease in 2007 compared to 2006 was primarily due to lower process development costs as we transitioned from R&D to manufacturing using our 45nm process technology, partially offset by higher profit-dependent compensation.

Marketing, General and Administrative. Marketing, general and administrative expenses were flat in 2008 compared to 2007 and decreased $721 million, or 12%, in 2007 compared to 2006. In 2008 compared to 2007, we had higher legal expenses that were offset by lower profit-dependent compensation and lower advertising expenses. The decrease in 2007 compared to 2006 was primarily due to lower headcount, lower share-based compensation, and lower cooperative advertising expenses, partially offset by higher profit-dependent compensation.

R&D, combined with marketing, general and administrative expenses, were 30% of net revenue in 2008, 29% of net revenue in 2007, and 34% of net revenue in 2006.

Restructuring and Asset Impairment Charges. The following table summarizes restructuring and asset impairment charges by plan for the three years ended December 27, 2008:

(In Millions)	2008	2007	2006
2008 NAND plan	$ 215	$ —	$ —
2006 efficiency program	495	516	555
Total restructuring and asset impairment charges	**$ 710**	**$ 516**	**$ 555**

We may incur additional restructuring charges in the future for employee severance and benefit arrangements, and facility-related or other exit activities. Subsequent to the end of 2008, management approved plans to restructure some of our manufacturing and assembly and test operations, and align our manufacturing and assembly and test capacity to current market conditions. These actions, which are expected to take place beginning in 2009, include closing two assembly and test facilities in Malaysia, one facility in the Philippines, and one facility in China; stopping production at a 200mm wafer fabrication facility in Oregon; and ending production at our 200mm wafer fabrication facility in California. Our outlook for the first quarter of 2009 is for additional restructuring and asset impairment charges of $160 million.

2008 NAND Plan

In the fourth quarter of 2008, management approved a plan with Micron to discontinue the supply of NAND flash memory from the 200mm facility within the IMFT manufacturing network. The agreement resulted in a $215 million restructuring charge, primarily related to the IMFT 200mm supply agreement. The restructuring charge resulted in a reduction of our investment in IMFT of $184 million, a cash payment to Micron of $24 million, and other cash payments of $7 million.

2006 Efficiency Program

The following table summarizes charges for the 2006 efficiency program for the three years ended December 27, 2008:

(In Millions)	2008	2007	2006
Employee severance and benefit arrangements	$ 151	$ 289	$ 238
Asset impairments	344	227	317
Total restructuring and asset impairment charges	**$ 495**	**$ 516**	**$ 555**

In the third quarter of 2006, management approved several actions recommended by our structure and efficiency task force as part of a restructuring plan designed to improve operational efficiency and financial results. Some of these activities have involved cost savings or other actions that did not result in restructuring charges, such as better utilization of assets, reduced spending, and organizational efficiencies. The efficiency program has included targeted headcount reductions for various groups within the company, which we have met through employee attrition and terminations. Business divestures have further reduced headcount.

During 2006, we completed the divestiture of three businesses. For further discussion, see "Note 12: Divestitures" in Part II, Item 8 of this Form 10-K. In connection with the divestiture of certain assets of our communications and application processor business, we recorded impairment charges of $103 million related to the write-down of manufacturing tools to their fair value, less the cost to dispose of the assets. We determined the fair value using a market-based valuation technique. In addition, as a result of both this divestiture and a subsequent assessment of our worldwide manufacturing capacity operations, we placed for sale our fabrication facility in Colorado Springs, Colorado. This plan resulted in an impairment charge of $214 million to write down to fair value the land, building, and equipment asset grouping that has been principally used to support our communications and application processor business. We determined the fair market value of the asset grouping using an average of the results from using the cost approach and market approach valuation techniques.

During 2007, we incurred an additional $54 million in asset impairment charges as a result of market conditions related to the Colorado Springs facility. Also, we recorded land and building write-downs related to certain facilities in Santa Clara, California. In addition, we incurred $85 million in asset impairment charges related to assets that we sold in conjunction with the divestiture of our NOR flash memory business. We determined the impairment charges based on the fair value, less selling costs, that we expected to receive upon completion of the divestiture.

During 2008, we incurred additional asset impairment charges related to the Colorado Springs facility, based on market conditions. Also, we incurred $275 million in additional asset impairment charges related to assets that we sold in conjunction with the divestiture of our NOR flash memory business. We determined the impairment charges using the revised fair value of the equity and note receivable that we received upon completion of the divestiture, less selling costs. The lower fair value was primarily a result of a decline in the outlook for the flash memory market segment. For further information on this divestiture, see "Note 12: Divestitures" in Part II, Item 8 of this Form 10-K.

The following table summarizes the restructuring and asset impairment activity for the 2006 efficiency program during 2007 and 2008:

(In Millions)	Employee Severance and Benefits	Asset Impairments	Total
Accrued restructuring balance as of December 30, 2006	**$ 48**	**$ —**	**$ 48**
Additional accruals	299	227	526
Adjustments	(10)	—	(10)
Cash payments	(210)	—	(210)
Non-cash settlements	—	(227)	(227)
Accrued restructuring balance as of December 29, 2007	**$ 127**	**$ —**	**$ 127**
Additional accruals	167	344	511
Adjustments	(16)	—	(16)
Cash payments	(221)	—	(221)
Non-cash settlements	—	(344)	(344)
Accrued restructuring balance as of December 27, 2008	**$ 57**	**$ —**	**$ 57**

We recorded the additional accruals, net of adjustments, as restructuring and asset impairment charges. The remaining accrual as of December 27, 2008 was related to severance benefits that we recorded within accrued compensation and benefits.

From the third quarter of 2006 through the fourth quarter of 2008, we incurred a total of $1.6 billion in restructuring and asset impairment charges related to this program. These charges included a total of $678 million related to employee severance and benefit arrangements for approximately 11,900 employees, of which 10,800 employees had left the company as of December 27, 2008. A substantial majority of these employee terminations affected employees within manufacturing, information technology, and marketing. Of the employee severance and benefit charges incurred as of December 27, 2008, we had paid $621 million. The restructuring and asset impairment charges also included $888 million in asset impairment charges.

We estimate that employee severance and benefit charges from the third quarter of 2006 to the fourth quarter of 2008 will result in gross annual savings of approximately $1.1 billion, a portion of which we began to realize in the third quarter of 2006. We are realizing these savings within marketing, general and administrative expenses; cost of sales; and R&D.

Share-Based Compensation

Share-based compensation totaled $851 million in 2008, $952 million in 2007, and $1.4 billion in 2006. Share-based compensation was included in cost of sales and operating expenses. The decrease in share-based compensation from 2006 to 2007 was a result of fewer equity awards vesting in 2007 compared to 2006.

As of December 27, 2008, unrecognized share-based compensation costs and the weighted average periods over which the costs are expected to be recognized were as follows:

(Dollars in Millions)	Unrecognized Share-Based Compensation Costs	Weighted Average Period
Stock options	$ 335	1.2 years
Restricted stock units	$ 937	1.4 years
Stock purchase plan	$ 18	1 month

Gains (Losses) on Equity Method Investments, Net

Net losses on equity method investments were $1.4 billion in 2008 compared to a net gain of $3 million in 2007. We recognized higher impairment charges and higher equity method losses in 2008 compared to 2007. Impairment charges in 2008 included a $762 million impairment charge recognized on our investment in Clearwire LLC and a $250 million impairment charge recognized on our investment in Numonyx. We recognized the impairment charge on our investment in Clearwire LLC to write down our investment to its fair value, primarily due to the fair value being significantly lower than the cost basis of our investment. The impairment charge on our investment in Numonyx was due to a general decline in the NOR flash memory market segment. Our equity method losses were primarily related to Numonyx ($87 million in 2008) and the old Clearwire Corporation ($184 million 2008 and $104 million in 2007). See "Note 6: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

Net gains on equity method investments were flat in 2007 compared to 2006. Approximately $110 million of income recognized in 2007 due to the reorganization of one of our investments was offset by higher equity method losses, primarily from our investment in the old Clearwire Corporation. Equity method losses were not significant in 2006.

Gains (Losses) on Other Equity Investments, Net

Gains (losses) on other equity investments, net were as follows:

(In Millions)	2008	2007	2006
Impairment charges	$ (455)	$ (92)	$ (72)
Gains on sales	60	204	151
Other, net	19	42	133
Total gains (losses) on other equity investments, net	**$ (376)**	**$ 154**	**$ 212**

Net losses on other equity investments were $376 million in 2008 compared to a net gain of $154 million in 2007. We recognized higher impairment charges and lower gains on sales in 2008 compared to 2007. Impairment charges in 2008 included a $176 million impairment charge recognized on our investment in the new Clearwire Corporation and $97 million of impairment charges on our investment in Micron. The impairment charge on our investment in the new Clearwire Corporation was due to the fair value being significantly lower than the cost basis of our investment. The impairment charges on our investment in Micron reflect the difference between our cost basis and the fair value of our investment in Micron at the end of the second and third quarters of 2008, and were principally based on our assessment of Micron's financial results and the competitive environment.

Net gains on other equity investments were $154 million in 2007 compared to $212 million in 2006. During 2007, we recognized lower gains on third-party merger transactions and higher impairment charges, partially offset by higher gains on sales of equity investments. Net gains on equity investments in 2006 included a gain of $103 million on the sale of a portion of our investment in Micron, which was sold for $275 million.

Interest and Other, Net

The components of interest and other, net were as follows:

(In Millions)	2008	2007	2006
Interest income	$ 592	$ 804	$ 636
Interest expense	(8)	(15)	(24)
Other, net	(96)	4	590
Total interest and other, net	**$ 488**	**$ 793**	**$ 1,202**

Interest and other, net decreased to $488 million in 2008 compared to $793 million in 2007. The decrease was due to lower interest income and fair value losses that we experienced in 2008 on our trading assets. Interest income was lower in 2008 compared to 2007 as a result of lower interest rates, partially offset by higher average investment balances.

Interest and other, net decreased to $793 million in 2007 compared to $1.2 billion in 2006, primarily due to lower divestiture gains, partially offset by higher interest income resulting primarily from higher average investment balances, and to a lesser extent higher interest rates. Results for 2006 included net gains of $612 million for three divestitures. See "Note 12: Divestitures" in Part II, Item 8 of this Form 10-K.

Provision for Taxes

Our effective income tax rate was 31.1% in 2008 (23.9% in 2007 and 28.6% in 2006). The rate increased in 2008 compared to 2007, primarily due to the recognition of a valuation allowance on our deferred tax assets due to the uncertainty of realizing tax benefits related to impairments of our equity investments. In addition, the rate increased in 2008 compared to 2007, due to the reversal of previously accrued taxes of $481 million (including $50 million of accrued interest) related to settlements with the U.S. Internal Revenue Service (IRS) in the first and second quarters of 2007. Our effective income tax rate was lower in 2007 compared to 2006, primarily due to the settlements with the IRS.

Liquidity and Capital Resources

Cash, short-term investments, marketable debt instruments included in trading assets, and debt at the end of each period were as follows:

(Dollars in Millions)	Dec. 27, 2008	Dec. 29, 2007
Cash, short-term investments, and marketable debt instruments included in trading assets	$ 11,544	$ 14,871
Short-term and long-term debt	$ 1,988	$ 2,122
Debt as % of stockholders' equity	5.1%	5.0%

In summary, our cash flows were as follows:

(In Millions)	2008	2007	2006
Net cash provided by operating activities	$ 10,926	$ 12,625	$ 10,632
Net cash used for investing activities	(5,865)	(9,926)	(4,988)
Net cash used for financing activities	(9,018)	(1,990)	(6,370)
Net increase (decrease) in cash and cash equivalents	**$ (3,957)**	**$ 709**	**$ (726)**

Operating Activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain assets and liabilities. For 2008 compared to 2007, the $1.7 billion decrease in cash provided by operating activities was primarily due to the $1.7 billion decrease in net income, while total adjustments to reconcile net income to cash provided by operating activities, including net changes in assets and liabilities, were approximately flat.

Inventories as of December 27, 2008 increased compared to December 29, 2007, due to higher chipset and microprocessor inventories partially offset by lower inventories of other products. As of December 27, 2008, our other accrued liabilities included $447 million in customer credit balances, which were reclassified from accounts receivable. Accounts receivable as of December 27, 2008 decreased significantly compared to December 29, 2007, due to a significant decline in revenue during the last month in the fourth quarter of 2008. Customer credit balances were not significant as of December 29, 2007. For 2008, our two largest customers accounted for 38% of our net revenue (35% in 2007). In 2008, one of these customers accounted for 20% of our net revenue (17% in 2007), and another customer accounted for 18% of our net revenue (18% in 2007). Additionally, these two largest customers accounted for 46% of our accounts receivable as of December 27, 2008 (35% as of December 29, 2007).

Due to the adoption of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS No. 159), in 2008, the related cash flows for marketable debt instruments classified as trading assets are now included in investing activities.

For 2007 compared to 2006, the increase in cash provided by operating activities was primarily due to higher net income. Changes to working capital in 2007 from 2006 were approximately flat, with a decrease in inventory levels compared to an increase in 2006, offset by higher purchases of trading assets exceeding maturities.

Investing Activities

Investing cash flows consist primarily of capital expenditures, net investment purchases, maturities, and disposals.

The decrease in cash used for investing activities in 2008 compared to 2007 was primarily due to a decrease in purchases of available-for-sale debt investments. In addition, due to the adoption of SFAS No. 159 in 2008, the related cash flows for marketable debt instruments classified as trading assets were included in investing activities for 2008, and previously they had been included in operating activities. Our investments in non-marketable equity investments were higher in 2008 and included $1.0 billion for an ownership interest in Clearwire LLC.

Our capital expenditures were $5.2 billion in 2008 ($5.0 billion in 2007 and $5.9 billion in 2006). Capital expenditures for fiscal year 2009 are currently expected to be flat to slightly down from our 2008 expenditures. Capital expenditures during fiscal year 2009 are expected to be funded by cash flows from operating activities.

The increase in cash used in investing activities in 2007 compared to 2006 was primarily due to higher purchases of available-for-sale investments. Lower capital spending was mostly offset by lower proceeds from divestitures.

Financing Activities

Financing cash flows consist primarily of repurchases and retirement of common stock, payment of dividends to stockholders, and proceeds from the sale of shares through employee equity incentive plans.

The higher cash used in financing activities in 2008 compared to 2007 was primarily due to an increase in repurchases and retirement of common stock, and lower proceeds from the sale of shares pursuant to employee equity incentive plans. During 2008, we repurchased $7.2 billion of common stock compared to $2.8 billion in 2007. As of December 27, 2008, $7.4 billion remained available for repurchase under the existing repurchase authorization of $25 billion. We base our level of common stock repurchases on internal cash management decisions, and this level may fluctuate. Proceeds from the sale of shares through employee equity incentive plans totaled $1.1 billion in 2008 compared to $3.1 billion in 2007, as a result of a lower volume of employee exercises of stock options. Our dividend payment was $3.1 billion in 2008, higher than the $2.6 billion in 2007, due to increases in quarterly cash dividends per common share. On January 23, 2009, our Board of Directors declared a cash dividend of $0.14 per common share for the first quarter of 2009.

The lower cash used in financing activities in 2007 compared to 2006 was primarily due to an increase in proceeds from the sale of shares through employee equity incentive plans and a decrease in repurchases and retirement of common stock.

Liquidity

Cash generated by operations is used as our primary source of liquidity. As of December 27, 2008, we also had an investment portfolio valued at $14.5 billion, consisting of cash and cash equivalents and marketable debt instruments included in trading assets and short- and long-term investments.

Our investment policy requires all investments with original maturities of up to 6 months to be rated at least A-1/P-1 by Standard & Poor's/Moody's, and specifies a higher minimum rating for investments with longer maturities. For instance, investments with maturities of greater than three years require a minimum rating of AA-/Aa3 at the time of investment. Government regulations imposed on investment alternatives of our non-U.S. subsidiaries, or the absence of A rated counterparties in certain countries, result in some minor exceptions. Substantially all of our investments in debt instruments are with A/A2 or better rated issuers, and the majority of the issuers are rated AA-/Aa2 or better. Additionally, we limit the amount of credit exposure to any one counterparty based on our analysis of that counterparty's relative credit standing. As of December 27, 2008, the total credit exposure to any single counterparty did not exceed $500 million.

Credit rating criteria for derivative instruments are similar to those for other investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed our obligations with that counterparty, because we enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions subject to International Swaps and Derivatives Association, Inc. (ISDA) agreements.

The credit quality of our investment portfolio remains high during this difficult credit environment, with other-than-temporary impairments on our available-for-sale debt instruments limited to $44 million during 2008. In addition, we continue to be able to invest in high-quality investments. However, we have seen a reduction in the volume of available commercial paper from certain market segments. As a result, our investments in short-term government funds have increased, which will reduce our average investment return. With the exception of a limited amount of investments for which we have recognized other-than-temporary impairments, we have not seen significant liquidation delays, and for those that have matured we have received the full par value of our original debt investments. We have the intent and ability to hold our debt investments that have unrealized losses in accumulated other comprehensive income for a sufficient period of time to allow for recovery of the principal amounts invested, which may occur at or near the maturity of those investments.

As of December 27, 2008, $10.2 billion of our portfolio had a remaining maturity of less than one year. As of December 27, 2008, our cumulative unrealized losses, net of corresponding hedging activities, related to debt instruments classified as trading assets were approximately $145 million (approximately $25 million as of December 29, 2007). As of December 27, 2008, our cumulative unrealized losses related to debt instruments classified as available-for-sale were approximately $215 million (approximately $55 million as of December 29, 2007). Substantially all of our unrealized losses can be attributed to fair value fluctuations in an unstable credit environment that resulted in a decrease in the market liquidity for debt instruments.

Our portfolio included $1.1 billion of asset-backed securities as of December 27, 2008. Approximately half of these securities were collateralized by first-lien mortgages or credit card debt. The remaining asset-backed securities were collateralized by student loans or auto loans. During 2008, our asset-backed securities experienced net unrealized fair value declines totaling $131 million, of which $108 million was recognized in our consolidated statements of income. As of December 27, 2008, the expected weighted average remaining maturity was less than two years.

We continually monitor the credit risk in our portfolio and mitigate our credit and interest rate exposures in accordance with the policies approved by our Board of Directors. We intend to continue to closely monitor future developments in the credit markets and make appropriate changes to our investment policy as deemed necessary. Based on our ability to liquidate our investment portfolio and our expected operating cash flows, we do not anticipate any liquidity constraints as a result of either the current credit environment or potential investment fair value fluctuations.

Our commercial paper program provides another potential source of liquidity. We have an ongoing authorization from our Board of Directors to borrow up to $3.0 billion, including through the issuance of commercial paper. Maximum borrowings under our commercial paper program during 2008 were approximately $1.3 billion, although no commercial paper remained outstanding as of December 27, 2008. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of December 27, 2008. Despite the tightening of the credit markets, we continue to be able to access funds through the credit markets, including through the issuance of commercial paper. We also have an automatic shelf registration statement on file with the SEC pursuant to which we may offer an unspecified amount of debt, equity, and other securities.

We believe that we have the financial resources needed to meet business requirements for the next 12 months, including capital expenditures for the expansion or upgrading of worldwide manufacturing and assembly and test capacity, working capital requirements, and potential dividends, common stock repurchases, and acquisitions or strategic investments.

Fair Value

Beginning in the first quarter of 2008, the assessment of fair value for our financial instruments was based on the provisions of SFAS No. 157. SFAS No. 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. A financial instrument's categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Credit risk is factored into the valuation of financial instruments that we measure at fair value on a recurring basis. When fair value is determined using observable market prices, the credit risk is incorporated into the market price of the financial instrument. When fair value is determined using pricing models, such as a discounted cash flow model, the issuer's credit risk and/or Intel's credit risk is factored into the calculation of the fair value, as appropriate. During 2008, the valuation of our liabilities measured at fair value as well as our derivative instruments in a current or potential net liability position were not impacted by changes in our credit risk. The credit ratings of certain of our counterparties have deteriorated. However, the deterioration of these credit ratings did not have a significant impact on the valuation of either our marketable debt instruments or derivative instruments in a current or potential net asset position.

When values are determined using inputs that are both unobservable and significant to the values of the instruments being measured, we classify those instruments as Level 3 under the SFAS No. 157 hierarchy. As of December 27, 2008, our financial instruments measured at fair value on a recurring basis included $15.0 billion of assets, of which $1.7 billion (11%) were classified as Level 3. In addition, our financial instruments measured at fair value on a recurring basis included $421 million of liabilities, of which $147 million (35%) were classified as Level 3. During 2008, we transferred approximately $680 million of assets from Level 3 to Level 2. These assets primarily consisted of floating-rate notes that were transferred from Level 3 to Level 2 due to a greater availability of observable market data and/or non-binding market consensus prices to value or corroborate the value of our instruments. During 2008, we recognized an insignificant amount of losses on the assets that were transferred from Level 3 to Level 2.

During 2008, the Level 3 assets and liabilities that are measured at fair value on a recurring basis experienced net unrealized fair value declines totaling $160 million. Of these declines, $111 million was recognized in our consolidated statements of income. We believe that the remaining $49 million, included in other comprehensive income, represents a temporary decline in the fair value of available-for-sale investments. During 2008, we did not experience any significant realized gains (losses) related to the Level 3 assets or liabilities in our portfolio.

Marketable Debt Instruments

As of December 27, 2008, our assets measured at fair value on a recurring basis included $14.2 billion of marketable debt instruments. Of these instruments, approximately $525 million was classified as Level 1, approximately $12.0 billion as Level 2, and approximately $1.6 billion as Level 3.

When available, we use observable market prices for identical securities to value our marketable debt instruments. If observable market prices are not available, we use non-binding market consensus prices that we seek to corroborate with observable market data, if available, or non-observable market data. When prices from multiple sources are available for a given instrument, we use observable market quotes to price our instruments, in lieu of prices from other sources.

Our balance of marketable debt instruments that are measured at fair value on a recurring basis and classified as Level 1 was classified as such due to the usage of observable market prices for identical securities that are traded in active markets. Marketable debt instruments in this category generally include certain of our floating-rate notes, corporate bonds, and money market fund deposits. Management judgment was required to determine our policy that defines the levels at which sufficient volume and frequency of transactions are met for a market to be considered active. Our assessment of an active market for our marketable debt instruments generally takes into consideration activity during each week of the one-month period prior to the valuation date of each individual instrument, including the number of days each individual instrument trades and the average weekly trading volume in relation to the total outstanding amount of the issued instrument.

Approximately 10% of our balance of marketable debt instruments that are measured at fair value on a recurring basis and classified as Level 2 was classified as such due to the usage of observable market prices for identical securities that are traded in less active markets. When observable market prices for identical securities are not available, we price our marketable debt instruments using: non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical and/or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and to a lesser degree non-observable market inputs. We corroborate the non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings. Approximately 45% of our balance of marketable debt instruments that are measured at fair value on a recurring basis and classified as Level 2 was classified as such due to the usage of a discounted cash flow model, approximately 40% due to the usage of non-binding market consensus prices that are corroborated with observable market data, and approximately 5% due to the usage of quoted market prices for similar instruments. Marketable debt instruments classified as Level 2 generally include commercial paper, bank time deposits, municipal bonds, certain of our money market fund deposits, and a majority of floating-rate notes and corporate bonds.

Our marketable debt instruments that are measured at fair value on a recurring basis and classified as Level 3 were classified as such due to the lack of observable market data to corroborate either the non-binding market consensus prices or the non-binding broker quotes. When observable market data is not available, we corroborate the non-binding market consensus prices and non-binding broker quotes using unobservable data, if available. Marketable debt instruments in this category generally include asset-backed securities and certain of our floating-rate notes and corporate bonds. All of our investments in asset-backed securities were classified as Level 3, and substantially all of them were valued using non-binding market consensus prices that we were not able to corroborate with observable market data due to the lack of transparency in the market for asset-backed securities.

Money Market Fund Deposits

As of December 27, 2008, our marketable debt instruments included $422 million of money market fund deposits. Of these money market fund deposits, $373 million was classified as Level 1 and $49 million was classified as Level 2.

Equity Securities

As of December 27, 2008, our portfolio of assets measured at fair value on a recurring basis included $352 million of marketable equity securities. Of these securities, $308 million was classified as Level 1 because the valuations were based on quoted prices for identical securities in active markets. Our assessment of an active market for our marketable equity securities generally takes into consideration activity during each week of the one-month period prior to the valuation date for each individual security, including the number of days each individual equity security trades and the average weekly trading volume in relation to the total outstanding shares of that security. The fair values of our investments in the new Clearwire Corporation ($148 million) and VMware, Inc. ($137 million) constituted most of the fair values of the marketable equity securities that we classified as Level 1. Our investment in VMware was reclassified from Level 2 to Level 1 during 2008, due to the expiration of our transfer restriction on VMware stock.

The remaining marketable equity securities ($44 million) were classified as Level 2 because their valuations were either based on quoted prices for identical securities in less active markets or adjusted for security-specific restrictions. The fair value of our investment in Micron ($42 million) constituted substantially all of the fair values of the marketable equity securities that we classified as Level 2. In measuring the fair value of our investment in Micron, our valuation reflected a discount from the quoted market price of Micron's stock, due to our investment being in a form of rights exchangeable into unregistered Micron stock.

As of December 27, 2008, our portfolio of assets measured at fair value on a recurring basis included $299 million of equity securities offsetting deferred compensation. All of these securities were classified as Level 1, because their valuations were based on quoted prices for identical securities in active markets.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 27, 2008:

	Payments Due by Period				
(In Millions)	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Operating lease obligations	$ 350	$ 106	$ 130	$ 68	$ 46
Capital purchase obligations[1]	2,862	2,782	80	—	—
Other purchase obligations and commitments[2]	1,180	492	554	9	125
Long-term debt obligations[3]	3,382	80	272	108	2,922
Other long-term liabilities[3, 4, 5]	645	260	157	98	130
Total[6]	**$ 8,419**	**$ 3,720**	**$ 1,193**	**$ 283**	**$ 3,223**

[1] *Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheet as of December 27, 2008, as we had not yet received the related goods or taken title to the property.*

[2] *Other purchase obligations and commitments include payments due under various types of licenses, agreements to purchase raw materials or other goods, as well as payments due under non-contingent funding obligations. Funding obligations include, for example, agreements to fund various projects with other companies.*

[3] *Amounts represent total anticipated cash payments, including anticipated interest payments that are not recorded on the consolidated balance sheets and the short-term portion of the obligation. Any future settlement of convertible debt would reduce anticipated interest and/or principal payments. Amounts exclude fair value adjustments such as discounts or premiums that affect the amount recorded on the consolidated balance sheets.*

[4] *We are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, $736 million of income taxes payable has been excluded from the table above. However, long-term income taxes payable, included on our consolidated balance sheet, includes these uncertain tax positions, reduced by the associated federal deduction for state taxes and non-U.S. tax credits.*

[5] *Other long-term liabilities in the table above include the short-term portion of other long-term liabilities. Expected contributions to our U.S. and non-U.S. pension plans and other postretirement benefit plans of $67 million to be made during 2009 are also included; however, funding projections beyond 2009 are not practical to estimate.*

[6] *Total generally excludes contractual obligations already recorded on the consolidated balance sheet as current liabilities.*

Contractual obligations for purchases of goods or services generally include agreements that are enforceable and legally binding on Intel and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. The table above also includes agreements to purchase raw materials that have cancellation provisions requiring little or no payment. The amounts under such contracts are included in the table above because management believes that cancellation of these contracts is unlikely and expects to make future cash payments according to the contract terms or in similar amounts for similar materials. For other obligations with cancellation provisions, the amounts included in the table above were limited to the non-cancelable portion of the agreement terms and/or the minimum cancellation fee.

We have entered into certain agreements for the purchase of raw materials or other goods that specify minimum prices and quantities based on a percentage of the total available market or based on a percentage of our future purchasing requirements. Due to the uncertainty of the future market and our future purchasing requirements, obligations under these agreements are not included in the table above. We estimate our obligation under these agreements as of December 27, 2008 to be approximately as follows: less than one year—$309 million; one to three years—$315 million; three to five years—zero; more than five years—zero. Our purchase orders for other products are based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements.

Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above. These obligations include milestone-based co-marketing agreements, contingent funding/payment obligations, and milestone-based equity investment funding. These arrangements are not considered contractual obligations until the milestone is met by the third party. As of December 27, 2008, assuming that all future milestones are met, additional required payments would be approximately $150 million.

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements paid by Intel on behalf of our employees. The obligation to pay the relative taxing authority is not included in the table above, as the amount is contingent upon continued employment. In addition, the amount of the obligation is unknown, as it is based in part on the market price of our common stock when the awards vest.

The expected timing of payments of the obligations above are estimates based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations. Amounts disclosed as contingent or milestone-based obligations are dependent on the achievement of the milestones or the occurrence of the contingent events and can vary significantly.

We have a contractual obligation to purchase the output of IMFT and IMFS in proportion to our investments, currently 49% in each of these ventures. However, IMFS is in its construction phase and has had no production to date. See "Note 6: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K. Additionally, we have entered into various contractual commitments in relation to our investments in IMFT and IMFS. Some of these commitments are with Micron, and some are directly with IMFT or IMFS. The following are the significant contractual commitments:

- Subject to certain conditions, Intel and Micron each agreed to contribute up to approximately $1.7 billion for IMFS in the three years following the initial capital contribution. Of that amount, as of December 27, 2008, our remaining commitment was approximately $1.3 billion. However, the construction of the IMFS fabrication facility has been placed on hold.
- We also have several agreements with Micron related to intellectual property rights, and R&D funding related to NAND flash manufacturing and IMFT. See "Note 6: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

Off-Balance-Sheet Arrangements

As of December 27, 2008, with the exception of a guarantee for the repayment of $275 million in principal of the payment obligations of Numonyx under its senior credit facility, as well as accrued unpaid interest, expenses of the lenders, and penalties, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K. See "Note 6: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

Business Outlook

Our future results of operations and the topics of other forward-looking statements contained in this Form 10-K, including this MD&A, involve a number of risks and uncertainties—in particular, current economic uncertainty, including the tightening of credit markets, as well as future economic conditions; our goals and strategies; new product introductions; plans to cultivate new businesses; divestitures or investments; revenue; pricing; gross margin and costs; capital spending; depreciation; R&D expenses; marketing, general and administrative expenses; potential impairment of investments; our effective tax rate; pending legal proceedings; net gains (losses) from equity investments; and interest and other, net. The current uncertainty in global economic conditions makes it particularly difficult to predict product demand and other related matters, and makes it more likely that our actual results could differ materially from our expectations. In addition to the various important factors discussed above, a number of other important factors could cause actual results to differ materially from our expectations. See the risks described in "Risk Factors" in Part I, Item 1A of this Form 10-K.

Our expectations for 2009 are as follows:

- *Total Spending.* We expect spending on R&D, plus marketing, general and administrative expenses, in 2009 to be between $10.4 billion and $10.6 billion. This expectation for our total spending in 2009 is lower than our 2008 spending by approximately 6% due to targeted spending reductions, lower spending for revenue and profit-dependent items, and the standard shift between R&D and cost of sales spending as we ramp our new 32nm process technology.
- *Research and Development Spending.* Approximately $5.4 billion.
- *Capital Spending.* We expect capital spending in 2009 to be flat to slightly down from capital spending in 2008 of $5.2 billion. We expect capital spending for 2009 to primarily consist of investments in 32nm process technology.
- *Depreciation.* Approximately $4.8 billion, plus or minus $100 million.
- *Tax Rate.* Approximately 27%. The estimated effective tax rate is based on tax law in effect as of December 27, 2008 and expected income.

Status of Business Outlook

We expect that our corporate representatives will, from time to time, meet privately with investors, investment analysts, the media, and others, and may reiterate the forward-looking statements contained in the "Business Outlook" section and elsewhere in this Form 10-K, including any such statements that are incorporated by reference in this Form 10-K. At the same time, we will keep this Form 10-K and our most current business outlook publicly available on our Investor Relations web site at *www.intc.com*. The public can continue to rely on the business outlook published on the web site as representing our current expectations on matters covered, unless we publish a notice stating otherwise. The statements in the "Business Outlook" and other forward-looking statements in this Form 10-K are subject to revision during the course of the year in our quarterly earnings releases and SEC filings and at other times.

From the close of business on February 27, 2009 until our quarterly earnings release is published, presently scheduled for April 14, 2009, we will observe a "quiet period." During the quiet period, the "Business Outlook" and other forward-looking statements first published in our Form 8-K filed on January 15, 2009, as reiterated or updated as applicable, in this Form 10-K, should be considered historical, speaking as of prior to the quiet period only and not subject to update. During the quiet period, our representatives will not comment on our business outlook or our financial results or expectations. The exact timing and duration of the routine quiet period, and any others that we utilize from time to time, may vary at our discretion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, primarily changes in currency exchange rates, interest rates, and equity prices. We use derivative financial instruments primarily to manage currency exchange rate risk and interest rate risk, and to a lesser extent, equity market risk and commodity price risk. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions as of December 27, 2008 and December 29, 2007. Actual results may differ materially.

Currency Exchange Rates

We generally hedge currency risks of non-U.S.-dollar-denominated investments in debt instruments with offsetting currency borrowings, currency forward contracts, or currency interest rate swaps. Gains and losses on these non-U.S.-currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in a negligible net exposure.

A majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, certain operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the euro, the Japanese yen, and the Israeli shekel. We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. We generally utilize currency forward contracts and, to a lesser extent, currency options in these hedging programs. Our hedging programs reduce, but do not always entirely eliminate, the impact of currency exchange rate movements (see "Risk Factors" in Part I, Item 1A of this Form 10-K). We considered the historical trends in currency exchange rates and determined that it was reasonably possible that a weighted average adverse change of 20% in currency exchange rates could be experienced in the near term. Such an adverse change, after taking into account hedges and offsetting positions, would have resulted in an adverse impact on income before taxes of less than $55 million at the end of 2008 (less than $35 million at the end of 2007, using a weighted average adverse change of 15% in currency exchange rates). The weighted average adverse change increased from the end of 2007 to the end of 2008, due to a higher relative weighting of more volatile currencies.

Interest Rates

We are exposed to interest rate risk related to our investment portfolio and debt issuances. The primary objective of our investments in debt instruments is to preserve principal while maximizing yields. To achieve this objective, the returns on our investments in debt instruments are generally based on three-month LIBOR, or, if the maturities are longer than three months, the returns are generally swapped into U.S. dollar three-month LIBOR-based returns. The current financial markets are extremely volatile. A hypothetical 1.0% decrease in interest rates, after taking into account hedges and offsetting positions, would have resulted in a decrease in the fair value of our net investment position of approximately $135 million as of December 27, 2008 and $80 million as of December 29, 2007. The hypothetical 1.0% interest rate decrease would have resulted in an increase in the fair value of our debt issuances of approximately $150 million as of December 27, 2008 and would have resulted in an increase in the fair value of our investment portfolio of approximately $15 million as of December 27, 2008 (an increase in the fair value of our debt issuances of approximately $95 million as of December 29, 2007 and an increase in the fair value of our investment portfolio of approximately $15 million as of December 29, 2007). The fluctuations in fair value of our debt issuances and investment portfolio reflect only the direct impact of the change in interest rates. Other economic variables, such as equity market fluctuations and changes in relative credit risk, could result in a significantly higher decline in our net investment portfolio. For further information on how credit risk is factored into the valuation of our investment portfolio and debt issuances, see "Fair Value" in Part II, Item 7 of this Form 10-K.

Equity Prices

Our marketable equity investments include marketable equity securities and equity derivative instruments such as warrants and options. To the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate our equity market exposure through hedging activities; however, for our investments in strategic equity derivative instruments, including warrants, we may enter into transactions to reduce or eliminate the equity market risks. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk.

The marketable equity securities included in trading assets are held to generate returns that seek to offset changes in liabilities related to the equity and other market risks of certain deferred compensation arrangements. The gains and losses from changes in fair value of these equity securities are offset by the gains and losses on the related liabilities. Assuming a decline in market prices of approximately 25%, our net exposure to loss was approximately $40 million as of December 27, 2008 and approximately $20 million as of December 29, 2007.

As of December 27, 2008, the fair value of our available-for-sale marketable equity securities and our equity derivative instruments, including hedging positions, was $362 million ($1.0 billion as of December 29, 2007). Our investments in the new Clearwire Corporation, VMware, and Micron constituted 90% of our marketable equity securities as of December 27, 2008, and were carried at a fair market value of $148 million, $137 million, and $42 million, respectively. The current equity markets are extremely volatile. Assuming a loss of 60% in market prices, and after reflecting the impact of hedges and offsetting positions, the aggregate value of our marketable equity investments could decrease by approximately $220 million, based on the value as of December 27, 2008 (a decrease in value of $565 million, based on the value as of December 29, 2007 using an assumed loss of 55%). The increase in the assumed loss percentage from December 29, 2007 to December 27, 2008 is due to a higher relative weighting of more volatile investments.

Many of the same factors that could result in an adverse movement of equity market prices affect our non-marketable equity investments, although we cannot always quantify the impact directly. The current financial markets are extremely volatile and there has been a tightening of the credit markets, which could negatively affect the prospects of the companies we invest in, their ability to raise additional capital, and the likelihood of our being able to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or become successful; consequently, we could lose all or part of our investment. Our non-marketable equity investments, excluding investments accounted for under the equity method, had a carrying amount of $1.0 billion as of December 27, 2008 ($805 million as of December 29, 2007). As of December 27, 2008, the carrying amount of our non-marketable equity method investments was $3.0 billion ($2.6 billion as of December 29, 2007). Most of the balance as of December 27, 2008 was concentrated in companies in the flash memory market segment and wireless connectivity market segment. Our flash memory market segment investments include our investment of $1.7 billion in IMFT ($2.2 billion as of December 29, 2007), $329 million in IMFS ($146 million as of December 29, 2007), and $484 million in Numonyx. Our wireless connectivity market segment investments include our non-marketable equity method investment in Clearwire LLC of $238 million. See “Note 6: Equity Method and Cost Method Investments” in Part II, Item 8 of this Form 10-K.